



<b>1. Project Data:</b>		<b>Date Posted :</b> 08/13/2001	
<b>PROJ ID:</b> P009117		<b>Appraisal</b>	<b>Actual</b>
<b>Project Name:</b> Agricultural Seed Development	<b>Project Costs (US\$M)</b>	63.30	N.A.
<b>Country:</b> Ukraine	<b>Loan/Credit (US\$M)</b>	32.00	21.10
<b>Sector(s):</b> Board: RDV - Agricultural marketing and trade (77%), Central government administration (23%)	<b>Cofinancing (US\$M)</b>	0.0	0.0
<b>L/C Number:</b> L3891			
	<b>Board Approval (FY)</b>		95
<b>Partners involved :</b> None	<b>Closing Date</b>	09/30/2000	09/30/2000
<b>Prepared by :</b>	<b>Reviewed by :</b>	<b>Group Manager :</b>	<b>Group:</b>
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<b>2. Project Objectives and Components</b>			
<b>a. Objectives</b>			
To assist the Government of Ukraine in improving its agricultural productivity and agricultural exports through (1) the supply of quality hybrid seeds for maize, sunflower, and sugarbeets; and (2) improvements in the efficiency and viability of the domestic seed system .			
<b>b. Components</b>			
At appraisal, the project had four components, the first one being by far the largest :			
(a) Hybrid seed production (\$46.60 million): Establishment and initial operation of three private enterprises specializing in production, processing, and marketing of hybrid maize, sunflower, and sugar beet seeds .			
(b) Regulatory framework (\$2.34 million): TA, training, and equipment to strengthen the institutional capacity of regulatory agencies to regulate the seed system .			
(c) Germplasm maintenance and improvement (\$2.91 million): TA, training, equipment, and materials for the Ukrainian Academy of Agricultural Sciences (UAAS) institutes in Kyiv, Odesa, and Saporizhzhia .			
(d) Project management (\$0.34 million): Establishment and operation of the project management unit .			
The project was restructured in April 1999. The hybrid maize subcomponent to establish a hybrid maize seed production enterprise was cancelled after three unsuccessful attempts to mobilize foreign and local partners .			
<b>c. Comments on Project Cost, Financing and Dates</b>			
The information of project costs is incomplete, presumable due to inadequate project monitoring . There was a long delay in effectiveness (to July 1996) as a result of unexpected difficulties in mobilizing the required equity capital . The cancellation of \$10.9 million of the loan resulted primarily from the decision not to proceed with a hybrid maize enterprise, and secondly from a decision not to complete the Agricultural Research Review that had been started .			
<b>3. Achievement of Relevant Objectives:</b>			
While the project has improved the production of domestic hybrid seed, it has clearly failed to improve agricultural productivity and to generate seed exports to the extent anticipated . Although the project has led to the establishment of two new seed producing enterprises, the new plants' annual production and sales levels are substantially below SAR estimates, and they will only be able to service their loans if the Ministry of Finance agrees to a major restructuring of the repayment schedule and terms . There has been no improvement in agricultural exports, due in part to the imposition of an 23% export tax on sunflower seeds in direct violation of the government's undertakings in relation to the project. The project has failed to establish a well-functioning regulatory framework and competitive seed industry, due to the continuation of subsidies to state -owned enterprises that dominate the seed industry, even though these produce low-quality seed in run-down facilities, as well as the recent imposition of a 70% import duty on sugarbeet seed.			
<b>4. Significant Outcomes/Impacts:</b>			
The only significant output has been the establishment of two new privately -owned seed enterprises with modern, up-to-date processing facilities that can produce high -quality hybrid seed at competitive prices . However, while these enterprises show positive economic rates of return, they have extremely low financial rates of return and major			

difficulties in repaying loans obtained under the project . The major reason for the divergence between economic and financial rates of return appears to be that domestic seed prices are far below international levels -- about 1/3 the import price for sugarbeets and 1/2 for sunflowers.

**5. Significant Shortcomings (including non-compliance with safeguard policies):**

(a) In spite of some progress in improving the regulatory framework, the project's achievements are considerably short of SAR expectations. Parliament has yet to approve revisions of the 1994 seed law. Even when these are passed, substantial illegal imports of low-quality seed and widespread local production and marketing of unlicensed, poor quality seed, are indicative of the failure to effectively enforce existing laws .

(a) The institutional development impact of the project is well below expectations . Except for some improvements in seed certification, there has been no discernible changes in the management and business conduct of participating government agencies. Two major institutional objectives -- the restructuring of UAAS and the State Commission for Plant Variety -- never occurred.

6. Ratings :	ICR	OED Review	Reason for Disagreement /Comments
<b>Outcome :</b>	Unsatisfactory	Unsatisfactory	
<b>Institutional Dev .:</b>	Modest	Modest	
<b>Sustainability :</b>	Unlikely	Unlikely	
<b>Bank Performance :</b>	Satisfactory	Satisfactory	
<b>Borrower Perf .:</b>	Unsatisfactory	Unsatisfactory	
<b>Quality of ICR :</b>		Satisfactory	

**NOTE:** ICR rating values flagged with '\*' don't comply with OP/BP 13.55, but are listed for completeness.

**7. Lessons of Broad Applicability:**

(a) Successful restructuring of government institutions requires clear government commitment to and ownership of these restructuring efforts. The Bank should not support such efforts without demonstrated commitment to such reforms.

(b) The Bank and UAAS pre-selected the enterprises and managers to support under this project, because there were no viable commercial banks in Ukraine to do so at the time . This approach is fraught with uncertainties and should be avoided whenever possible .

(c) Newly created enterprises operating in an uncertain market environment like that in the Ukraine require more than the usual learning period before they can reach full production and efficiency . The SAR's expectations in this regard were unrealistic.

(d) Where sector policy reforms are necessary for the profitability of investment projects, as in this case, Bank management (both country and sector) must provide adequate support to the supervision team in this regard .

**8. Assessment Recommended?**  Yes  No

**9. Comments on Quality of ICR:**

The ICR provides a thorough description and analysis of a failed project . The ICR is missing some of the usual tables on project costs, presumably because of inadequate monitoring by the project implementation unit .